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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000650

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SUBJECT: BP UPDATE ON EAST-WEST ENERGY CORRIDOR

Classified By: acting DCM Joan A. Polaschik, reasons 1.4 (b), (d) and (e).

11. (C) SUMMARY. During his regular briefing for U.S. and UK Embassy officers on April 25, AIOC President David Woodward gave a downbeat assessment of talks with BOTAS on BTC completion and predicted further delays. SCP is largely on schedule although Woodward continues to argue that it will be impossible to supply Shah Deniz gas to Georgia any earlier than the start of Phase II in 2010-2011. While Azerbaijan still desires more associated gas from ACG, BP's plan to exploit deep gas at that field has been vetoed. Woodward also indicated that the BP-designed macroeconomic modeling mechanism for oil revenue management will follow Samir Sharifov from the State Oil Fund to the Ministry of Finance. END SUMMARY.

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DIFFICULTIES CONTINUE WITH BOTAS...  
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12. (C) Woodward gave a gloomy assessment of recent discussions with Turkish state pipeline company BOTAS on BTC completion. He said that BP is taking the approach of "how do we pay in order to get this project done." Woodward portrayed BOTAS as unresponsive to ideas and simply demanding money. Woodward said he would see the BOTAS board on the afternoon of April 26 (we do not know if this meeting occurred) and plans to meet with the Turkish Energy Minister on May 2. Woodward feels BOTAS is pushing the issue onto the Energy Ministry. At the moment, says Woodward, oil has reached station PT4 in Turkey, meaning that the line is 80% full. The next step is the final push to Ceyhan, and the oil must flow from PT4 before mid-May if the first tanker carrying ACG oil is to leave Ceyhan by May 27 as planned. According to Woodward, BOTAS has threatened to hold the oil at PT4 if an agreement is not reached, and has also threatened to turn off the oil after the actual first lifting as they will still have some minor work to do on other parts of the line. In any event, the current holdup will delay completion by at least one week, and Woodward feels it is likely first lifting will slip to mid-June.

13. (C) Woodward said that BP has little leverage at this point but that BP is telling BOTAS and anyone who will listen that this experience will "color our thinking on any future projects." BTC commissioning ceremonies are still set

tentatively for July 13, however while the Turkish MFA seems to be working with this date the Turkish Energy Ministry has not given BP its formal assent for this date. President Aliyev is likely to raise BTC progress in Washington and again in Turkey.

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...BUT PROGRESS CONTINUES ON SHAH DENIZ  
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14. (C) Woodward said the new Shah Deniz drilling platform is in place and the "first flow" of gas into SCP is still on schedule for September. The question was asked if BOTAS, which is behind schedule, will complete the SCP connector in time. Woodward believes that SCP is a different situation than BTC -- BOTAS is building the SCP connector to its own standards and for its own use, as opposed to BTC, which it is building under BP rules and for BP's use. Additionally, the Shah Deniz gas will be used in Turkey, Woodward pointed out, and since it comes in at half the price of Blue Stream gas, the Turks want to get access to it as soon as possible. Some compressor stations on the Turkish side of SCP will not be completed by September, says Woodward. This will result in slightly smaller volumes of gas transiting SCP initially, he explained, until those stations come on-line.

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EARLY SHAH DENIZ GAS TO GEORGIA UNLIKELY  
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15. (C) Woodward said there have been no further meetings of the Turkey-Georgia-Azerbaijan group to discuss Georgia's request for "more gas sooner" from Shah Deniz (in other words, before Shah Deniz Phase II begins in 2010-2011). BP

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is involved with this process only to provide technical advice. In Woodward's long-held view, it is physically impossible to increase the amount of gas produced by Shah Deniz Phase I, so Georgia would have to buy gas already obligated to Turkey and/or Azerbaijan. Given that Shah Deniz gas is half the price of Blue Stream gas, Woodward finds it unlikely that Turkey would give any up. As for Azerbaijan, Woodward believes while it could theoretically supply some more gas to Georgia, even from non-Shah Deniz sources, exporting any significant quantities would force Azerbaijan to importing more gas from Russia for domestic use. The Russians would probably figure this out, noted Woodward, and raise their prices, perhaps to prohibitive levels.

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PLANS FOR EXPLOITING ACG ASSOCIATED GAS CONTINUE...  
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16. (C) A new pipeline has been commissioned from the ACG oil field to bring more associated gas to shore per Azerbaijan's request. The associated gas (gas mixed in with the oil) is largely reinjected into the field to create pressure and make the oil flow easier. Azerbaijan gets to keep the associated gas not used for this purpose -about 1.4 bcma - but wants to raise this amount to 3 bcma. Since this will leave less gas for reinjection and thus impact oil production, BP needs compensation and discussions are now underway to determine how much Azerbaijan will pay for this gas.

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...BUT PLANS FOR EXPLOITING DEEP GAS AT ACG ARE SCRUBBED  
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17. (C) BP had originally hoped to swap greater Azerbaijani access to ACG associated gas in exchange for the right to develop the large gas field at ACG that is not covered by the PSA and that lies far below the mixed oil and gas field currently being exploited. The outlines of a deal for BP to exploit deep gas at ACG had been agreed upon with both Samir Sharifov, then head of SOFAZ, the state oil fund, and Rovnag

Abdullayev, head of SOCAR, but after Sharifov became Finance Minister he disengaged from the issue, leaving behind Abdullayev, who vetoed the deal. There are no further discussions taking place on BP access to deep gas at ACG.

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MACROECONOMIC MODEL TO FOLLOW SHARIFOV  
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18. (C) Speaking of Sharifov, Woodward said that he expected the macroeconomic modeling system BP created (to assist the GOAJ with oil revenue management) would be housed in the Finance Ministry. Originally it was to be housed in SOFAZ but apparently will follow Sharifov to his new job.  
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